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**THE SENATE
STATE OF MICHIGAN**

PRESS RELEASE

Monday, April 24, 2006

Contact: Sen. Hansen Clarke
(517) 373-7346

**SENATOR HANSEN CLARKE TO INTRODUCE LEGISLATION
TO END AUTO INSURANCE DISCRIMINATION BASED
ON EDUCATION AND OCCUPATION**

**GEICO Charges Higher Insurance Rates To Persons Without College Degrees
And Who Work Blue Collar Jobs**

Senator Hansen Clarke seeks to ban automobile insurers' use of rating methods and underwriting guidelines to directly base rates and eligibility solely upon someone's education level achieved and their occupation. Senator Clarke supports the view shared by the New Jersey Citizens United Reciprocal Exchange, (NJ CURE) a leading not-for-profit auto insurance provider in New Jersey and the Consumer Federation of America (CFA). These groups find these rating methods and the underwriting guidelines to hurt lower income citizens and to be unfair.

Also based on NJ CURE's and CFA's findings, Senator Clarke believes that if this insurance practice is not banned, all of Michigan's auto insurers will be compelled to base their rates solely upon a driver's education level achieved and occupation out of fear that they will not write a fair share of the more affluent, who are attractive for marketing other financial products, such as home, life and boat insurance as well as banking products.

The attached documents show that GEICO, the nation's fourth largest auto insurer, has adopted rating methods and underwriting guidelines that directly base rates and eligibility solely upon education and occupation in 44 of 50 states, including Michigan. GEICO's underwriting guidelines directly harm lower income residents and likely have an indirect negative effect on Detroit consumers. Under GEICO's criteria, a janitor with a high school diploma in Detroit

would pay 91.94 percent more than a company president in Detroit with a law degree. Nationally the average “surcharge” being applied by GEICO for being low income is over 40 percent. The attachments show the breakdown of the “surcharge” by state.

A media statement issued by the NJ CURE explains how GEICO discriminates against low income people: Unknown to applicants, GEICO uses four separate GEICO insurance companies – GEICO, GEICO General, GEICO Indemnity and GEICO Casualty to insure drivers. Each one of these companies uses different base rates that they charge drivers. If a driver qualifies for their preferred GEICO insurance company, that driver will receive their lowest rates. If a driver does not qualify for their preferred company, that driver will get a quote from one of their sub-standard companies and pay substantially higher rates.

GEICO places individuals whose highest level of education is a high school diploma in a “group” that is ineligible for the preferred GEICO company. The only coverage offered to this group by GEICO is through one of the sub-standard companies, which has significantly higher base rates. Most troubling is that these individuals are not even informed that they are being rejected by the preferred GEICO company due to their educational status alone.

Senator Clarke agrees with NJ CURE’s statement illustrating why this practice is not fair to Michigan drivers: If someone has been driving 20 years without an accident or a ticket, why would their decision to simply work in a blue collar industry justify their car insurance rates being increased significantly? Similarly, why would someone unable to afford a four-year college degree be forced to pay more for car insurance if they never drive carelessly?

For further information on this study, these representatives are available for additional comment: Eric S. Poe, CPA, J.D., Chief Operating Officer, NJ CURE (609) 520-0800 ext. 7601 and J. Robert Hunter, Director of Insurance, CFA (703)528-0062.

Consumer Federation of America

1620 I Street NW, Suite 200
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NJ CURE

214 Carnegie Center
Princeton, NJ 08540

March 14, 2006

The Honorable Alessandro A. Iuppa, President
National Association of Insurance Commissioners (NAIC)
2301 McGee Street, Suite 800
Kansas City, MO 64108-2662

Dear President Iuppa:

The Consumer Federation of America (CFA) has recently become aware of documents that show that the Government Employees Insurance Company (GEICO) is using rating methods and underwriting guidelines that have a serious adverse effect on minority consumers and lower income Americans. These practices might also be discriminatory under federal or state civil rights laws. We request that the NAIC immediately examine this evidence and move quickly to issue a resolution calling for all states to ban the use of these practices. We are joined in this call to action by the New Jersey Citizens United Reciprocal Exchange (NJ CURE), a leading writer of auto insurance in New Jersey.

The attached documents show that GEICO, the nation's 4th largest auto insurer, has adopted rating methods and underwriting guidelines that directly base rates and eligibility solely upon education and occupation in 44 of 50 states. GEICO's underwriting guidelines not only directly harm lower income Americans, but also have an indirect negative effect on minority consumers. Under the criteria used in these documents, a factory worker without a four-year college degree in New Orleans would pay 90.75 percent more than an attorney with a graduate degree. Nationally the average "surcharge" being applied by GEICO for being poor is over 40 percent. (See Exhibit B (c) for a breakdown of the "surcharge" by state).

A facially neutral practice that has an adverse and disparate impact on a protected class of people has been found to be a violation of civil rights laws. (For example, race-based premiums for the issuance and pricing of life insurance are prohibited in the United States, despite actuarial and statistical evidence that exhibits different life expectancies for different races. Although most life and property and casualty insurance companies nationwide stopped selling race-based policies in 1966, when basing rates on race became illegal under federal law, several life insurance companies were recently found to continue to use underwriting and pricing methods based upon race and were sanctioned accordingly.)

GEICO has concealed the negative effect of these practices on minority and lower income consumers through the use of underwriting guidelines based solely upon education and occupation.

We understand that insurance commissioners often do not collect or review underwriting guides so it is likely that these methods have been overlooked. Therefore, we hope this letter will serve notice that you should begin an immediate investigation into these practices. What is very troubling is that GEICO appears to be using these guides as a de facto rating method that would normally require approval by departments of insurance and would be required to be included in rate manuals that are usually made public. The practice of keeping underwriting guides concealed contributes to the ability of an insurer to engage in unfair practices such as these.

GEICO's harmful and possibly discriminatory practices are enabled through the use of four separate GEICO insurance companies – GEICO, GEICO General, GEICO Indemnity and GEICO Casualty. Each one of these companies uses different base rates that they charge drivers. If a driver qualifies for their preferred GEICO insurance company, that driver will receive their lowest rates. If a driver does not qualify for their preferred company, that driver will get a quote from one of their sub-standard insurance companies and pay substantially higher rates.

Subsequently, through the use of data on educational achievement alone as the underwriting criteria, GEICO places individuals whose highest level of education is a high school diploma in a "group" that is ineligible for the preferred GEICO company. The only coverage offered to this group by GEICO is through one of the sub-standard companies, which has significantly higher base rates. Inconceivably, these individuals are not even informed that they are being rejected by the preferred GEICO company due to their educational status alone. This occurs because all four companies carry the GEICO namesake – GEICO, GEICO General, GEICO Casualty, and GEICO Indemnity.

GEICO's use of educational status alone to determine rates and eligibility allows it to bypass existing prohibitions on the use of an individual's income, based on studies that have shown that this information is racially discriminatory. Because of the direct correlation between income and educational levels attained, GEICO is effectively substituting a proxy that is permitted for a criterion that is prohibited. See below:

U.S. Mean Annual Earnings by Education	
	Annual Income
No High School	\$26,593
High School	\$36,700
Some College	\$43,275
Bachelor's Degree	\$65,442
Source: Money Income in the United States 2004, U.S. Department of Commerce	

Educational attainment not only correlates to income but to race. According to the 2000 U.S. Census data, the percentage of Caucasian people age 25 who have achieved a four-year college degree was 27.6 percent compared to 17.3 percent of adult African Americans. In sheer population data alone, there are 12 times as many Caucasians with a four-year college degree after the age of 25 as African-Americans in the U.S. Furthermore, according to the 1990 U.S. Census data, high school completion for Hispanics aged 22-24 was only 64 percent, compared with 91 percent and 84 percent for Caucasians and African-Americans, respectively. Therefore, the disparate impact is not limited to African Americans alone.

GEICO's methodology is reprehensible because not everyone has the opportunity or can afford to pursue a four-year college degree in the United States. To base underwriting criteria for auto insurance on this factor is unconscionable and possibly discriminatory. If a student's parent has the misfortune to have a job outsourced to India or lost to an event such as an employer's insolvency or a natural disaster, that student may have to quit school to help the family. Why does this make the former student a worse driver?

GEICO's preferred insurance company eligibility requirements also have an adverse effect on those individuals whom GEICO has categorized in "blue or grey-collar" occupations, which also correlate to income. Those who fall in these occupational categories are ineligible for GEICO's preferred companies.

In conclusion, NJ CURE and CFA request that the NAIC issue a resolution calling upon its member states to ban these underwriting practices nationwide. Permitting auto insurance carriers to use educational attainment and occupation as sole underwriting criteria for rates and eligibility will have an unjustified and disparate impact on racial minorities and a serious adverse effect on low income individuals who need the protection of auto insurance.

We urge the NAIC to act in a clear and decisive manner regarding this topic, before competitive pressures lead to broader use of these harmful criteria. We have recently discovered that Liberty Mutual Insurance has also adopted educational attainment as a method of underwriting and rating as well. The problem is, if an insurer sees a competitor doing this and believes there may be a modicum of adverse selection against the insurer as a result, the insurer may feel forced to adopt this approach. We urge you to prohibit this practice before it becomes widespread.

We look forward to working on this important matter with you.



Eric S. Poe, CPA, J.D.
New Jersey Citizens United Reciprocal Exchange

Sincerely,



J. Robert Hunter
Consumer Federation of America

cc: Rep. Frank Wald, President, National Conference of Insurance Legislators
All Insurance Commissioners

Mini-Biographies of the Authors

To provide you a relevant background on the writers of this letter, Bob Hunter currently serves as Director of Insurance for Consumer Federation of America, a federation that represents almost 300 pro-consumer groups with a combined membership of more than 50 million Americans. CFA's member organizations range from small, local consumer groups to very large organizations, such as the AARP and Consumers Union.

Mr. Hunter is a property and casualty insurance actuary, a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries. His experience in the insurance industry spans 45 years and encompasses serving as a supervisor in automobile insurance ratemaking for the forerunner organization that is now called the Insurance Services Office (ISO), the Chief Actuary and Federal Insurance Administrator of the Federal Insurance Administration, President of the National Insurance Consumer Organization, and former Insurance Commissioner for the state of Texas from 1993-1994.

Mr. Poe is the chief operating officer for NJ CURE auto insurance. He has a Juris Doctorate degree in law from Seton Hall School of Law and is a licensed Certified Public Accountant. His insurance experience spans over 13 years. NJ CURE is the fifth largest direct writer of auto insurance in New Jersey, insuring over 50,000 vehicles and accumulating over \$81 million in assets. Eric is frequently cited by the *New Jersey Star Ledger* and other top periodicals on the topic of auto insurance. Eric has also appeared on television on News 12 New Jersey, UPN 9 in Philadelphia, and internationally on CNBC as an expert insurance panelist.

In 2004, Eric was awarded New Jersey Biz's "40 under 40" award naming him as one of the top 40 most influential business entrepreneurs under the age of 40 in New Jersey.

DOCUMENTATION OF GEICO'S PRACTICES

The attached GEICO corporate documents and our research document these abuses:

1. GEICO's official filing papers to the New Jersey Department of Banking and Insurance. These pages are similar if not identical to the language contained in their nationwide filings with other states where they write.

a) "GEICO GUIDE TO COMPANY PLACEMENT"

Page 3 and page 5 are the most important parts of this filing. Note: page 3 has a highlighted phrase that did not display properly in the scanner. It says, "Occupation Group."

On page 3, GEICO indicates that people who also buy more insurance for liability (BI LIMITS) are the most "favorable risks." People who buy higher levels of insurance are typically more affluent and are less likely to be minorities. Page 3 also shows that the most "favorable risks" are those in Groups 1, 2, and 7, and the least favorable are Group 5 drivers. Page 5 shows the Groups themselves and their definitions. As you can see, Group 5 (least favorable according to the page 3 placement guide) are those who are minimally skilled and have only high school diplomas.

b) GEICO AUTO RATE QUOTES IN NEW ORLEANS

These pages illustrate the actual quotes generated by GEICO's company website when three quotes were requested. The only difference between the quotes is the educational level of the applicants and their occupations. The premium charge for an electrician with only a high school diploma was 73.44 percent higher in New Orleans than for the president of a "white collar" company who had been educated as a "lawyer." The premium price for the less educated person is \$2,397.10, while the same person who has a higher education and a "white collar" job would pay only \$1,382.10. The impact increases further when an individual with an occupation of "factory worker" with a high school diploma requests a quote for the same vehicle and location, as GEICO will charge that person \$2,636.40 -- an additional 90.75 percent.

c) RATE COMPARISON EXAMPLES FOR ALL STATES

This exhibit provides an example of the impact of these practices by state. The impact ranges from a high of 124 percent in Louisiana to no impact in the six states (Indiana, Kansas, Massachusetts, New York, Tennessee and Virginia) where the practice appears not to be in use at the present time. The states where this practice is used but the effect is lowest are Kentucky and Oklahoma at 11.1 percent impact. The national impact in these sample examples averages 40.7 percent.

COMPARISON OF GEICO RATES WHITE COLLAR VS. BLUE COLLAR

	State	City	White Collar Cost*	Blue Collar Cost**	% Difference
1	Alabama	Tuscaloosa	\$485.20	\$549.90	13.33%
2	Alaska	Anchorage			0.00%
3	Arizona	Tempe	\$569.10	\$669.00	17.55%
4	Arkansas	Little Rock	\$612.40	\$755.60	23.38%
5	California	Los Angeles	\$1,325.60	\$1,753.90	32.31%
6	Colorado	Denver	\$844.20	\$1,125.40	33.31%
7	Connecticut	Hartford	\$698.10	\$924.00	32.36%
8	Delaware	Newark	\$605.20	\$806.60	33.28%
9	Florida	Miami	\$729.50	\$841.50	15.35%
10	Georgia	Atlanta	\$1,005.30	\$1,611.00	60.25%
11	Hawaii	Honolulu	\$444.80	\$833.80	87.46%
12	Idaho	Aberdeen	\$448.00	\$503.90	12.48%
13	Illinois	Chicago	\$556.80	\$618.70	11.12%
14	Indiana	Indianapolis			0.00%
15	Iowa	Iowa City	\$395.30	\$493.80	24.92%
16	Kansas	Kansas City			0.00%
17	Kentucky	Lexington	\$594.91	\$660.97	11.10%
18	Louisiana	New Orleans	\$1,079.70	\$2,426.30	124.72%
19	Maine	Portland	\$400.50	\$470.90	17.58%
20	Maryland	Baltimore	\$858.50	\$1,144.20	33.28%
21	Massachusetts	Boston			0.00%
22	Michigan	Detroit	\$1,844.50	\$3,540.30	91.94%
23	Minnesota	St. Paul	\$537.60	\$826.10	53.66%
24	Mississippi	Biloxi	\$547.30	\$729.40	33.27%
25	Missouri	St. Louis	\$516.80	\$648.60	25.50%
26	Montana	Adler	\$603.90	\$1,160.90	92.23%
27	Nebraska	Omaha	\$398.20	\$568.60	42.79%
28	Nevada	Las Vegas	\$728.70	\$1,289.30	76.93%
29	New Hampshire	Concord	\$819.00	\$1,024.00	25.03%
30	New Jersey	Princeton	\$455.90	\$604.00	32.49%
31	New Mexico	Belen	\$510.80	\$638.40	24.98%
32	New York	New York			0.00%
33	North Carolina	Advance	\$340.66	\$394.26	15.73%
34	North Dakota	Grand Forks	\$504.70	\$593.50	17.59%
35	Ohio	Cleveland	\$355.20	\$507.20	42.79%
36	Oklahoma	Achille	\$719.60	\$799.50	11.10%
37	Oregon	Carvallis	\$455.40	\$535.50	17.59%
38	Pennsylvania	Philadelphia	\$540.60	\$635.50	17.55%
39	Rhode Island	Adamsville	\$546.90	\$612.50	11.99%
40	South Dakota	Alcester	\$429.30	\$610.70	42.25%
41	South Carolina	Alcolu	\$543.00	\$611.00	12.52%
42	Tennessee	Nashville			0.00%
43	Texas	Houston	\$612.70	\$874.80	42.78%
44	Utah	Salt Lake City	\$422.70	\$563.30	33.26%
45	Vermont	Wilmington	\$191.70	\$246.20	28.43%

46	Virginia	Fairfax			0.00%
47	Washington	Seattle	\$610.00	\$1,041.20	70.69%
48	West Virginia	Morgantown	\$574.34	\$765.49	33.28%
49	Wisconsin	Milwaukee	\$435.80	\$544.40	24.92%
50	Wyoming	Bosler	\$402.20	\$573.70	42.64%
51	Washington D.C.		\$590.00	\$707.90	19.98%
National Average			\$26,890.61	\$37,835.72	40.70%

* White Collar President with Law Degree.

** Custodian/Janitor with High School Diploma.

*** Rates are based on a 25 year old single male with 50/100/25 coverage and a \$500 deductible for Comp/Coll for a 2006 Ford Taurus LX.

Minor variables may have changed from state to state such as PIP coverage limits, and if they were chosen it was always the default selection on GEICO.com,
but for each example the selection was consistent for comparison purposes.

DRAFT 1

A bill to amend 1956 PA 218, entitled
"The insurance code of 1956,"
(MCL 500.100 to 500.8302) by adding section 2027a.

THE PEOPLE OF THE STATE OF MICHIGAN ENACT:

1 **SEC. 2027A. (1) IT IS AN UNFAIR METHOD OF COMPETITION AND AN**
2 **UNFAIR OR DECEPTIVE ACT OR PRACTICE IN THE BUSINESS OF INSURANCE**
3 **FOR AN AUTOMOBILE INSURER TO ESTABLISH OR USE AN UNDERWRITING RULE**
4 **IN SUCH A MANNER AS TO ASSIGN A RISK TO A RATING PLAN ON THE BASIS**
5 **OF AN INSURED'S OR APPLICANT'S EDUCATIONAL LEVEL, EMPLOYMENT,**
6 **TRADE, BUSINESS, OCCUPATION, OR PROFESSION.**
7 **(2) IT IS AN UNFAIR METHOD OF COMPETITION AND AN UNFAIR OR**
8 **DECEPTIVE ACT OR PRACTICE IN THE BUSINESS OF INSURANCE FOR AN**
9 **AUTOMOBILE INSURER TO REQUIRE, AS TO ANY APPLICATION OR SELECTION**
10 **OF COVERAGE FOR AN AUTOMOBILE INSURANCE POLICY, ANY INFORMATION AS**



1 TO AN INSURED'S OR APPLICANT'S EDUCATIONAL LEVEL, EMPLOYMENT,
2 TRADE, BUSINESS, OCCUPATION, OR PROFESSION.

3 Enacting section 1. This amendatory act takes effect January
4 1, 2007.

